

Signalling Change: Jewellery SMEs and Corporate Social Responsibility

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Signalling Change

Jewellery SMEs and Corporate Social Responsibility

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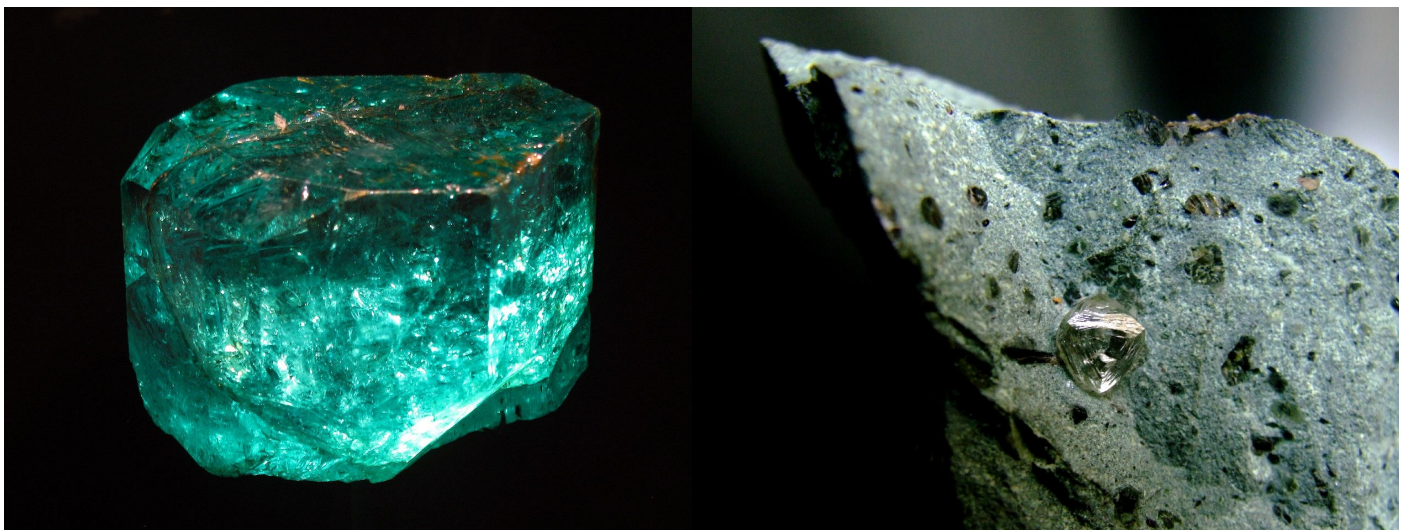
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Overview

Introduction

Millions of people are employed by the global jewellery industry and some countries' entire economic wellbeing depends on this trade. Like many other sectors, however, this industry is not immune to discussions around its social and environmental impacts, and the role it can play in ameliorating some of the negative aspects of those impacts. Governments, NGOs and consumers have all, in different ways, put pressure on the industry to demonstrate its commitment to doing good. On top of these pressures, a number of widely-publicised problems have contributed to a perception that all is not well (see box). In addition to all the normal pressures businesses in the early 21st century face, the jewellery industry has a very specific set

The Marikana miners' massacre

The Marikana miners' strike took place in 2012, in Marikana (South Africa). At least 47 people died, the vast majority of which were striking miners shot by security forces. The Marikana mine's main product is platinum.

According to the International Labour Organisation, the mine was notorious for its hazardous working conditions, and low pay for workers. The incident resulted in widespread negative publicity for the jewellery industry.

of challenges, which derive from the nature of the products it trades. The first is the unintended but unavoidable harms which are associated with the extractive industry. Mining for precious minerals will always have associated environmental impacts, even where investment and best practices are employed. While there is evidence that impact avoidance, mitigation and offsetting of unavoidable damage can contribute to improving the industry's impact, particularly at an environmental level, there remains the question of what extractive industries can do to ameliorate social impact on the livelihoods of communities affected by their activities.

In addition to these unintended impacts, a perception remains that best practice is not always employed. NGOs and media regularly suggest that the jewellery industry's supply chain remains associated with questionable, exploitative practices.

This has resulted in increased pressure over the jewellery industry to demonstrate its commitment to more responsible practice, leading to a concerted movement within the jewellery industry to engage with the ongoing issues and demonstrate the industry's responsible stance. As a result, there has been a proliferation of Corporate Social Responsibility (CSR) initiatives, the best known among which is the Kimberley Process. It applies only to diamonds, leaving large swathes of practice in the industry untouched – from other precious stones, to precious metals and recycled diamonds, much remains to be done.

It must be noted that the jewellery industry offers particularly complex challenges to the implementation of CSR initiatives. From the mine to the con-

sumer, jewellery involves long and complex supply chains, in terms of both geographical coverage and number of intermediaries involved. Furthermore, the products involved are varied and difficult to trace, despite tight controls and quality certifications; the amount of recycling of materials involved in the production of the final consumer product further adds to the difficulty in maintaining traceability.

However, supply chain length is not the only difficulty in implementing CSR practice across the jewellery industry. The supply chains are also complex and fragmented, with some of the larger businesses sometimes integrating along the value chain, to become involved in manufacturing and retailing. This fragmentation extends to the retail side, with a small number of large retailers operating alongside a large number of SMEs.

Given the challenges above, the research presented in this report sought to examine SME jewellery businesses and their customers in the context of CSR.

Research Aims

The study focused on three main research aims:

1. To better understand SME attitudes and behaviour towards social responsibility in context of the jewellery industry.
2. To explore what SMEs consider being the value and impact of CSR signals emitted by the global jewellery industry.
3. To conceptualise how responsible business practices can be signalled to increase con-

sumer trust and confidence in the Jewellery Industry.

Research Approach

The research aims were addressed using a case study of the Birmingham Jewellery Quarter (BJQ). As the location of one of the main UK Assay Offices and a significant fine jewellery market for SMEs trading locally and globally, the BJQ provided our geographical context, a decision that was also guided by scoping conversations with key industry contacts within the trade. This localised industry cluster is dominated by small firms employing less than 10 people each.

The study involved two independent samples of respondents: twelve SME representatives and key trade informants at the BJQ; and twenty consumers with previous experience of purchasing jewellery at the BJQ. All participants were invited to in-depth interviews, each lasting between 1 and 2 hours. Responses from interviewees formed the basis of the results presented below.





Signalling Social Responsibility for Jewellery SMEs

Jewellery SMEs in the BJQ are in the process of developing their approach to CSR – a process neither easy nor devoid of obstacles.

Global CSR initiatives and Jewellery SMEs

Jewellery SMEs in the Birmingham Jewellery Quarter feel they face increased pressure to engage in CSR activities. The increased engagement of larger jewellery companies and the added awareness raised by trade associations – both of which are motivated to avoid and minimise public opinion scandals – means jewellery SMEs are pressured into demonstrating their commitment to responsible jewellery. However, SMEs see themselves as only small pieces of a large industry, with very little capacity to make a substantial difference. They also feel that, as small players, they face disproportionate compliance costs (see box). The second aspect of these initi-

The small businesses can't afford to be CSR audited. They can fill out some forms but they can't afford an annual audit that might cost them a couple of grand.

Scrap Metal Buyer and Recycler

atives is an investment in communicating responsible practices to consumers, NGOs, policymakers and remaining stakeholders. In this way, trade associations and the larger companies in the sector are attempting to avoid or minimise future problems, as well as demonstrate to regulators and pressure groups their commitment to best practice. The SMEs in the Birmingham Jewellery Quarter operate in this environment.

The challenges for SMEs

Jewellery SMEs in the BJQ face increased pressure to engage in CSR activities. The increased engagement of larger jewellery companies and the added awareness raised by trade associations have meant that jewellery SMEs are beginning to see the need to demonstrate their commitment to responsible jewellery. However, SMEs see themselves as only small pieces of a large industry, with very little capacity to make a substantial difference, while facing disproportionate compliance costs.

Much of the work necessary for jewellery SMEs to comply with responsibility standards involves improved traceability of the provenance of materials. This is a tall order for small companies, which have neither the capital nor the information to provide full traceability of the products they sell. The business model of these companies consists of acquiring raw materials from suppliers and selling designed goods to consumers; as a result of only dealing with direct suppliers, they find it hard to ascertain what takes place upstream in their supply

chain. The sheer length of jewellery supply chains present obstacles to the adoption of CSR by small and medium enterprises.

The other challenging aspect of this business model is interpersonal. Because jewellery SMEs have a very small number of employees and typically deal with a small number of suppliers, business relationships become personal and extend over time. This is a necessity, as well as a feature, of the business: it is normal for SMEs to have repeated and frequent interactions with a small number of suppliers over time. Furthermore, these suppliers are often located close to the SME. The result is strong bonds of trust between individuals at the design, local manufacture and retail-end of the supply chain. Paradoxically, this high trust between individuals can be a negative factor in implementing supply chain traceability and CSR, as individuals' mechanism for assuring the provenance of products is to ask their supplier and take the answer as a trustworthy, without hard evidence (see box). Trust can be an obstacle to CSR adoption in jewellery SMEs.

I might have a diamond that cost £3,000/£4,000, I will take it to my setter, and there's no paperwork between us. It's done completely on trust around here... I think we craftsmen, we're just different.

Jewellery Designer-Maker

Within the industry, the overarching role of trade associations was perceived as setting skills and manufacturing benchmarks rather than providing explicit CSR benefits. Membership benefits cited included financial discounts for sales fairs and copyright services, to legal services and industry newsletters. However, there was less awareness of the role of trade associations in regulating and promoting social responsibility. This may change as organisations such as the Responsible Jewellery Council increase their reach with their chain of custody certification and standards programme, and awareness grows of new CSR initiatives such as the British Jewellers Association "Jewellers' Social Responsibility Framework", and the Company of Master Jewellers "Just Ask" campaign.

Overall, jewellery SMEs understand and acknowledge the importance of CSR in the jewellery business. However, their position in the jewellery supply chain means limited access to reliable information about provenance of the materials they buy or the conditions of extraction. While large companies and trade bodies continuously try and promote the adoption of CSR, the quality of information received by SMEs is limited by their capacity to engage in the field of business responsibility, as well as by ingrained interpersonal trust networks. The upstream signals received by jewellery SMEs in terms of adoption of CSR are weak and incomplete. The downstream signals (from consumers) present their own challenges, which makes jewellery SMEs somewhat sceptical of the need for CSR.



Consumers and Responsibility Signals in Jewellery

Reasons to visit the Birmingham Jewellery Quarter

The research revealed a number of trends among consumers visiting the BJQ:

- More than half of the participants have bought their wedding ring or engagement ring from BJQ.
- BJQ offers a lot of choices of shops, better customer services and better prices.
- For some of the participants, BJQ is known to them as a place to have their “old” jewellery remodelled.
- Some consumers went to BJQ because they wanted to personally design their jewellery alongside an expert designer maker.

Beyond these trends, consumers are also motivated by ethical concerns, which reflect on their opinions towards the social responsibility of jewellery SMEs.

Consumer and Ethical Jewellery

According to the industry trading bodies, signalling responsible business practices is increasingly important for buyer trust and confidence in jewellery industry. This view sees consumers as drivers of CSR adoption across all industries, pushing for the take-up of ethical and responsible business

practices in whatever they acquire. Consumers, the view goes, would “vote with their wallets”, choosing to take their custom to those retailers who follow their preferred ethical positions. Through the action of the market, CSR would become a necessary, normal aspect of trading in the jewellery business. In practice, the picture is mixed.

As a product category, jewellery has specific characteristics, which impact its potential for CSR. While consumers may be interested in the ethical and responsibility issues associated with jewellery, there is perceived consumer ambivalence regarding how such issues relate to jewellery purchases (see box). Responsibility is usually not a central attribute of jewellery products,

I don't think most people probably even think about provenance... It's not on peoples' radar so much, is it? I don't suppose people think about where the metal comes from, how it's done... They're just thinking about the product they're buying.

Jewellery Designer-Maker

which are usually associated with luxury, aesthetics, quality, design, romance or glamour. This in turn results in reduced incentives for jewellery SMEs to promote responsible and ethical jewellery, for whom making responsibility salient may mean bringing irresponsible business practices in other product lines to the fore. Given the impossibility of promoting all of their products as responsible, jewellers prefer not to signal any product as responsible. Between SME jewellers and consumers, the situation is of “let sleeping dogs lie”.

Further, jewellery products are purchased infrequently and therefore are seen by consumers as having limited importance and impact. As a result, consumers feel that such purchases do not

deserve the same level of ethical attention and effort as other, more frequent purchases. There is a perception that adding ethical attributes such as guaranteed provenance and traceability may add too much cost to products which are already expensive, to very little practical effect. In terms of cost-effect calculation, most consumers appear relatively unwilling to seek assurance of the CSR credentials of the jewellery they acquire.

When it comes to responsibility, consumers trust jewellers to do the right thing. They have limited knowledge of the complexity of the jewellery industry, and rarely feel the need to research the ethics behind the products they acquire. When buying jewellery products, most consumers implicitly assume that they are not produced under contentious conditions, by an industry which behaves responsibly. While a few consumers will take ethical concerns to heart (see box), once again trust (between consumers and jewellery retailers) results in reduced demand for CSR in the jewellery industry. The jewellery market is failing to deliver on the signals necessary for responsibility to become a core concern within the industry. This raises the view that other measures may be needed.

It had to be a conflict free diamond. That was my big, big ethical dilemma when I was buying it. I made sure that was the case and, apart from that, it was just then the style that she would like.

I was literally walking into shops, and my first question wasn't looking at the rings, it was Are your diamonds conflict free? Can you prove it? If they answered yes to both, then I'd have a look, if not left straight away, went to the next one.

BJQ Consumer





From Signals to Action

The jewellery industry faces the need to future-proof its practices, a task better completed by seriously adopting CSR across its long and complex supply chains. Pressure for this will not come from the market: consumers are generally behind the responsibility curve, putting little or no effort into demanding and supporting business practices in the industry. However, the next PR blunder is likely to create a wave of questions, as well as potentially result in a patchwork of regulation, which will make industry operations more difficult by increasing compliance costs. What's more, it is at the level of SMEs that non-compliance to business responsibility could prove to be the "soft underbelly" of the CSR armour the industry is building. Despite this, jewellery SMEs appear comparatively unconvinced of the need for CSR.

The next PR blunder is likely to create a wave of questions, as well as potentially result in a patchwork of regulation, which will make industry operations more difficult by increasing compliance costs.

Being responsible may be the key to survival when the next corporate scandal happens.

It is easy for SMEs to shy away from engaging in CSR. As small players, they are relatively invisible in the discussion and also face considerable resource constraints. They feel less pressure than large multinationals to comply with CSR as a supply chain issue rather than as a consumer-facing set of activities. This is due to a situation of perceived market failure: signals from consumers are simply not enough to foster the roll-out of best practice. The over-reliance on consumers is a risky approach. As a group of specialists, the industry has a role in informing consumers, not waiting for them to demand responsible business practices. Furthermore, should the next PR scandal show that SMEs have not been pulling their weight on the responsibility front, it is possible that large retailers may gain even more competitive advantage against SMEs by being demonstrably ahead in the adoption and implementation of best practice. Adopting CSR could be a matter of survival for some jewellery SMEs.

Overall, the wide scale adoption of CSR by the jewellery industry will require joined up industry action. Specific actions must include increased transparency along supply chains, with the implementation of traceability mechanisms and best practice, as well as more effort from the part of trade bodies to communicate the added value of their recent CSR initiatives. Furthermore, the entrenched practices between buyers and sellers, which have served the industry so well for many years, must be complemented by public disclosure of the origin of materials. Failure to do so may result in pressure towards regulation of the industry or, worse, loss of consumer trust. While consumers may not be actively requiring that responsible business practices be at the heart of all the jewellery products they purchase, the industry must not become complacent; being responsible may be the key to survival when the next corporate scandal happens.

